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THE FARM COST SITUATION

Agricultural Research Service
UNITED STATES DEPARTMENT OF AGRICULTURE

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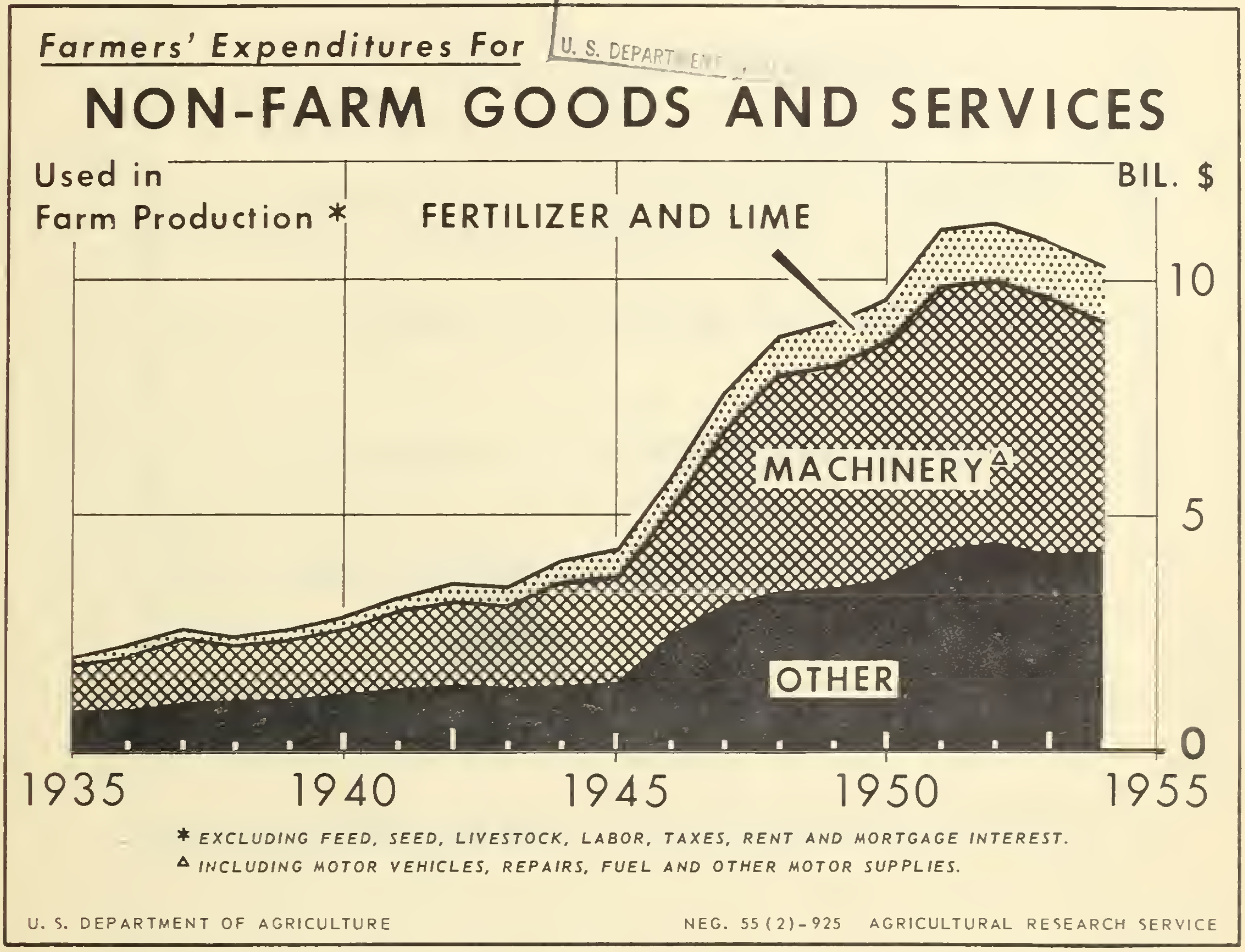

Farmers' Expenditures For
NON-FARM GOODS AND SERVICES
Used in Farm Production *

* EXCLUDING FEED, SEED, LIVESTOCK, LABOR, TAXES, RENT AND MORTGAGE INTEREST.
△ INCLUDING MOTOR VEHICLES, REPAIRS, FUEL AND OTHER MOTOR SUPPLIES.

U. S. DEPARTMENT OF AGRICULTURE NEG. 55 (2)-925 AGRICULTURAL RESEARCH SERVICE

In recent years, farmers have spent more than $10 billion annually for nonfarm goods and services used in farm production. This is more than 4 times as much as they spent annually for such goods and services in 1935-39. Price increases account for about half of the increase in these expenditures.

Goods and services used in production: Prices paid by farmers and farm wage rates, United States
Index numbers (1935-39 = 100)

Year	Commodities, interest, taxes and wage rates 1/	Commodities only	Feed	Livestock	Motor supplies	Motor vehicles	Farm machinery	Farm supplies	Building and fencing materials	Ferti- lizer	Seed	Wage rates 2/
1910-14	79	80	95	81	---	---	65	71	69	98	84	82
1915-19	118	121	149	123	---	---	85	117	97	141	127	122
1920-24	131	117	133	94	---	---	101	130	116	141	124	149
1925-29	131	116	127	123	127	89	101	123	111	129	123	152
1930-34	101	90	85	71	99	89	95	103	96	106	81	100
1935-39	100	100	100	100	100	100	100	100	100	100	100	100
1940	100	99	95	115	96	101	100	104	101	96	86	107
1941	106	105	103	130	99	107	101	111	108	96	82	125
1942	121	119	126	152	106	116	107	123	118	107	111	163
1943	138	132	149	173	109	121	111	137	123	114	139	217
1944	148	140	165	163	111	131	114	144	131	116	158	263
1945	156	142	164	178	111	135	115	146	134	118	162	297
1946	168	154	190	202	113	139	119	147	146	119	167	320
1947	192	181	225	252	124	161	135	159	191	131	192	346
1948	211	202	238	312	138	181	157	169	212	143	223	365
1949	204	192	196	277	140	199	176	176	210	147	202	354
1950	210	198	200	324	143	199	180	176	215	141	193	351
1951	232	220	225	395	150	212	194	189	239	149	197	388
1952	237	221	239	331	151	222	201	200	240	153	223	416
1953	227	204	216	234	154	220	203	201	241	154	205	424
1954	227	203	215	238	156	222	205	196	241	152	192	421
Jan.	229	205	212	251	---	220	---	---	---	---	---	434
Feb.	230	205	214	251	---	---	---	---	---	---	192	---
Mar.	230	206	217	249	158	222	205	198	240	152	192	---
Apr.	229	206	220	253	---	---	---	196	---	151	192	419
May	229	206	222	252	---	---	---	---	---	---	194	---
June	227	203	216	236	156	222	205	194	239	---	---	---
July	224	199	213	210	---	221	---	---	---	---	---	417
Aug.	225	202	215	224	---	---	---	---	---	---	---	---
Sept.	226	202	215	231	155	221	205	194	242	152	190	---
Oct.	225	202	211	234	---	---	---	---	---	---	---	415
Nov.	225	202	211	238	---	---	---	---	---	---	---	---
Dec.	225	202	212	229	156	220	205	197	243	---	---	---
1955												
Jan.	230	205	213	247	---	224	---	---	---	---	---	431
Feb.	232	206	212	250	---	---	---	---	---	---	214	---

1/ Revised to reflect revisions in interest and tax indexes. 2/ Simple average of quarterly indexes seasonally adjusted.

Note: For a list of items included in this table see "Agricultural Prices," Agricultural Marketing Service, September 30, 1954.

THE FARM COST SITUATION

Approved by the Outlook and Situation Board, March 1, 1955

CONTENTS

	Page		Page
General situation	3	Building materials, and farm supplies	14
Farm labor	6	Pesticides	14
Farm power and machinery	6	Land costs and rents	16
Feed	8	Interest, taxes, and insurance..	18
Seeds	10	Farmers' adjustments to cost changes	21
Fertilizer	13		

GENERAL SITUATION

Farmers' costs have not changed significantly since last spring. The index of prices paid by farmers for goods and services used in production, including interest, taxes, and wage rates was less than 1 percent higher in mid-February than it was a year earlier and little over all change is expected this year.

The most important change in farm costs in the last year was a 12 percent increase in retail prices of seeds. Supplies are smaller and the demand is greater. Thousands of acres of legumes and grasses will have to be sown this spring or next fall because of severe drought in the summer and fall of 1954. Furthermore, many acres which normally would be planted to such crops as wheat and corn, now in surplus supply, are expected to be seeded to hay and pasture crops for livestock.

Farm wage rates are slightly lower than a year ago in some areas. Farm property taxes are expected to be about 4 percent higher in 1955 than in 1954. Interest rates are expected to be firm. Prices of other major categories of production items are about the same as they were last spring.

The cost-price squeeze has tightened appreciably. The parity ratio at 87 in the last quarter of 1954 was 4 points below the last quarter of 1953. Almost all of the decline was due to a reduction in prices received. Prices paid were up less than 1 percent.

Relative changes in farm cost rates from one year to another usually are not great. Sometimes, however, these short-run changes are significant. And it is frequently possible to make profitable adjustments to short-term shifts. For example, when the retail price of Kentucky bluegrass seed went up to about $2.00 a pound in 1954, many farmers found it advantageous to use cheaper substitutes.

More important in shaping production plans to reduce unit costs, however, are the relative changes in farm cost rates which accumulate over a period of years and which appear likely to persist. For example, farm wage rates have increased more than 300 percent since prewar, while prices of farm machinery have increased about 100 percent (fig. 1). Among the other important items that farmers buy that have increased relatively little are fertilizer and gasoline. Such changing relationships among cost rates have had a great deal to do with the reduction in the quantity of labor used on farms and the increases in farm mechanization, size of farms, and farm output.

Most of the relative changes in cost rates took place in World War II (fig. 2). Since 1947 the relationships among important cost rates have been fairly stable but farmers continue to adjust their farming operations to take advantage of these changes in costs.

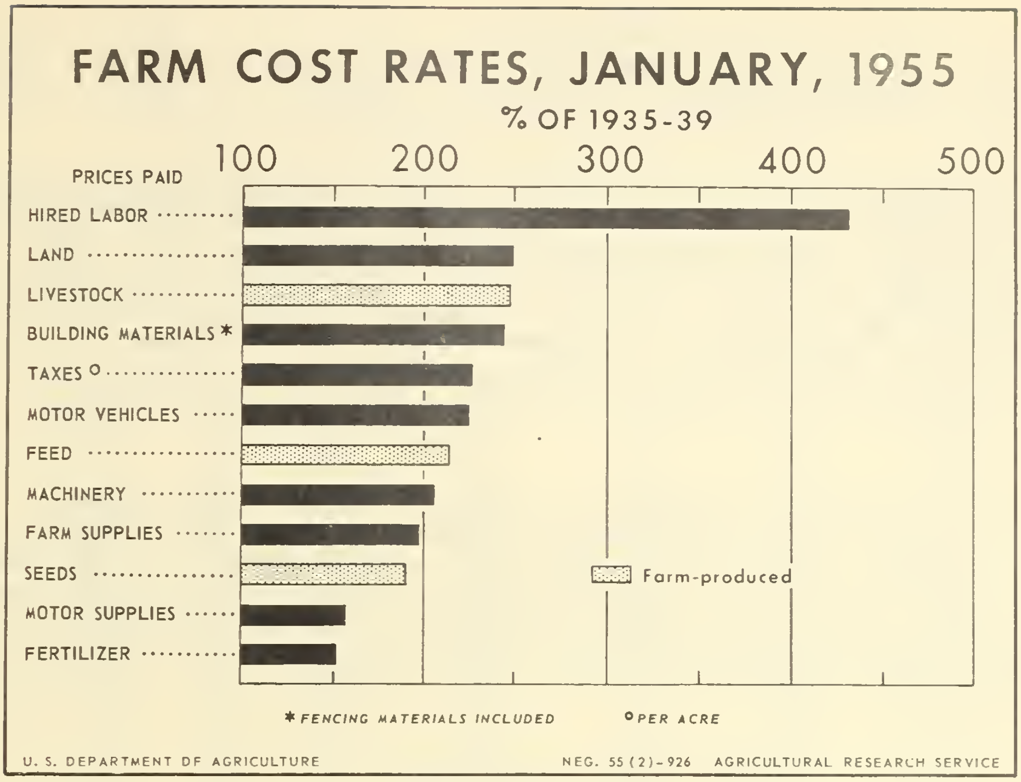

Figure 1

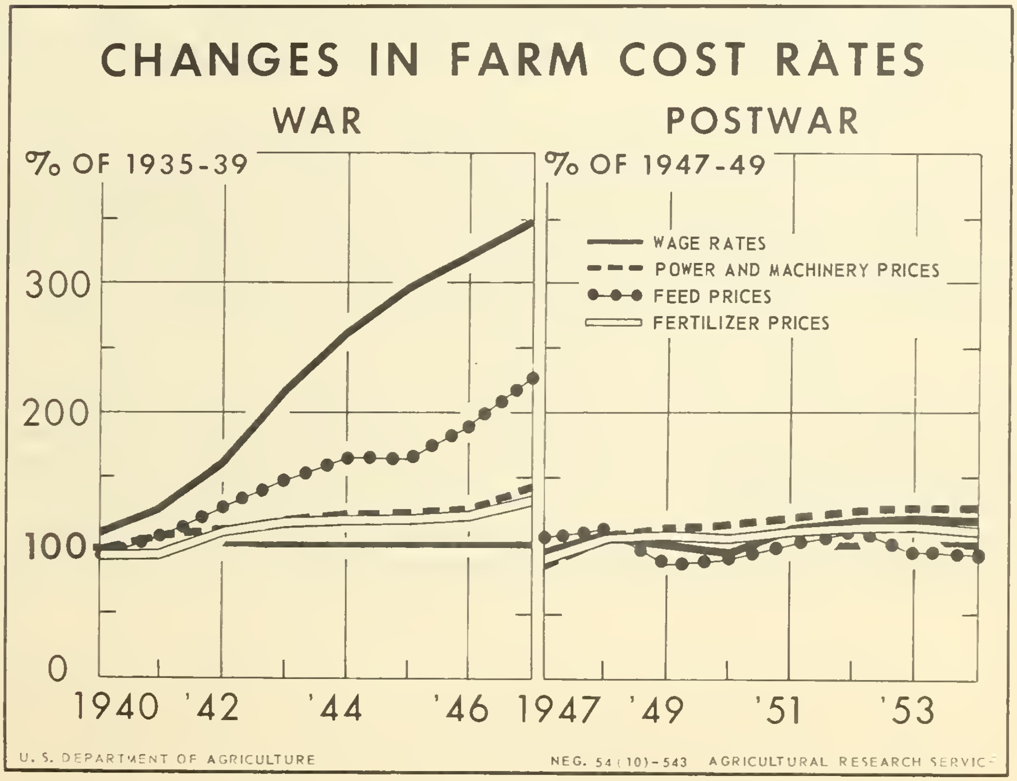

Figure 2

FARM LABOR

Farm wage rates in 1954 averaged only slightly lower than in 1953. The declines were generally in the Southern and Western States.

The number of workers available for employment on farms this year is expected to be generally adequate to satisfy the demand. The supply of seasonal workers from domestic sources is expected to be about the same as last year, if the present high level of industrial activity continues throughout the year. Mexican Nationals and other foreign workers are expected to be available to supplement the supply from domestic sources. The supply of experienced year-round farm workers will probably continue tight, and effective recruitment and placement programs will be needed.

The 1955 acreage allotment for cotton, a big labor-using crop, is about 1.6 million acres less than the acreage in cultivation last July 1. Much land taken out of cotton will be diverted to crops and uses that take less labor. With average weather, this points to a slackening in labor needs in the cotton-chopping and cotton-picking seasons. Adjustments in acres of crops in other major farming areas will affect total labor requirements very little.

FARM POWER AND MACHINERY

Current index numbers of prices paid by farmers for all kinds of farm machinery and equipment, including tractors, are more than double what they were in 1935-39. Most of this increase came before 1951. Present indications are that prices will be about the same in 1955 as they were in 1954.

Prices of machines and tractors on which index numbers of prices paid by farmers are based include the attachments and accessories with which the machines are equipped. In general, the postwar machines have more attachments and accessories than did the prewar machines. The index of wholesale prices of farm machinery, which reflects changes in prices after the effects of these additional features have been removed, is currently about 75 percent above 1935-39.

Following the outbreak of hostilities in Korea in June 1950, purchases of farm machinery in 1951 reached a record high and farmers spent an unusually high percentage of their incomes for machinery and equipment. Since 1951 farmers' purchases of machinery and equipment have declined. Domestic shipments of farm machines and equipment in 1954 were slightly more than 10 percent below the 1953 shipments and they were the lowest of

Table 1.- Labor used on farms, labor productivity, wage rates and related data, United States, 1940-54 1/

Index numbers (1947-49=100)

Year	Farm employment			Man-hours of farm work 3/	Farm output 4/	Farm output per man-hour	Gross farm income per man-hour 5/	Farm wage rates 6/
	Total 2/	Family 2/	Hired					
1940	107	104	117	120	83	69	28	30
1941	104	101	116	117	86	74	35	35
1942	103	100	112	122	96	79	46	46
1943	102	101	107	121	94	78	56	61
1944	100	100	98	120	97	81	60	74
1945	98	99	93	112	96	86	68	83
1946	101	102	96	108	98	91	81	90
1947	102	102	99	103	95	92	99	97
1948	101	101	102	100	104	104	103	103
1949	97	97	99	97	101	104	98	100
1950	91	91	91	89	100	112	108	99
1951	88	88	87	91	103	113	122	109
1952	85	85	84	89	107	120	122	117
1953	84	84	85	88	108	123	120	119
1954 7/	83	82	84	86	108	126	118	119

1/ Data on farm employment, wage rates, and farm income are from the Agricultural Marketing Service.

2/ Includes farm operators and members of their families who work without wages.

3/ Total man-hours of farm work in terms of the time required by average adult male workers.

4/ Net calendar-year production for eventual human use.

5/ Because of the increase in volume of output and the increase in the price of farm products, gross farm income per man-hour has increased at about the same rate as have farm wage rates.

6/ Simple average of seasonally adjusted quarterly indexes.

7/ Preliminary.

any year of the postwar period. Although domestic production of farm machinery in 1954 was almost a third below the record 1951 production, the volume was large compared with that in any year before World War II.

Farmers' purchases of machinery and equipment, in the short run, are fairly closely related to current and prospective farm incomes. Farmers' incomes in 1955 are expected to approach those of 1954, and their total purchases of machines and equipment will probably be about the same as their 1954 purchases.

The number of horses and mules now on farms is less than 20 percent of the 1918 number and about 30 percent of the 1935-39 number (table 2).

Retail prices of gasoline in 1954 were higher than for any previous year, but they were only about 45 percent above those of 1935-39. In most States, 1955 prices are expected to show little change from the 1954 prices, but in some States increased gasoline taxes are expected to result in higher prices for non-tax exempt uses.

Tire prices in 1954 were about 55 percent above the prewar prices. They were at peak levels in 1951 but in 1952 they declined and since then they have shown little change. In the current year some tire manufacturers have increased their prices moderately, and this may be reflected at the retail level.

FEED

The supply of feed grains for 1954-55 is 5 percent above last year, and it is expected to be ample for all current needs. The carryover next fall probably will be a little larger than the record stocks of a year earlier. In total, there are about 3 to 4 percent more grain-consuming livestock in the current feeding year, which began October 1, 1954.

Compared with a year earlier, on January 1, 1955 the number of milk cows was down about 1 percent, that of cattle on feed was up 8 percent; that of other beef cattle was up 1 percent; the number of hens and pullets on farms was up 2 percent; and the number of horses and mules was down 9 percent. It is expected that broiler production in 1955 will average close to 1954 production, and farmers intend to raise about 18 percent fewer chickens for laying flock replacement. Farmers' January intentions were to raise about the same number of heavy-breed turkeys but 11 percent fewer of the light breeds. The fall pig crop of 1954 was 16 percent above a year earlier, and farmers intended in January to have 5 percent more sows farrow 1955 spring pigs than last year.

Table 2.- Farm power and machinery and related data, United States, 1935-39 average and 1940-54

Index numbers (1935-39=100)

Year or period	Number on farms, January 1 1/						Volume on farms, January 1 2/		Gross farm income calendar year 3/	Prices received by farmers
	Horses and mules all ages	Work stock 3 years old and over	Colts under 1 year of age	Tractors	Automobiles	Motortrucks	All machinery and equipment other than tractors and other motor vehicles	All farm power (including work animals) machines and equipment		
1935-39	100	100	100	100	100	100	100	100	100	100
1940	92	89	101	124	106	108	118	106	105	93
1941	90	87	98	135	111	113	126	109	132	115
1942	87	84	85	152	120	119	141	116	179	147
1943	84	83	69	169	112	132	158	121	220	179
1944	80	81	62	178	107	142	162	121	232	182
1945	76	77	54	195	106	153	178	126	244	192
1946	71	73	42	206	109	159	197	131	279	219
1947	64	67	35	220	112	175	219	137	328	256
1948	59	62	31	240	108	195	252	147	333	266
1949	54	57	28	266	110	212	286	158	306	231
1950	49	52	23	290	108	227	310	166	309	239
1951	45	48	19	317	110	237	337	175	356	280
1952	40	42	16	335	112	248	366	184	355	267
1953	35	38	15	354	113	262	379	188	342	239
1954	32	34	14	370	114	272	381	190	329	231
1955 4/	29	31	13							

1/ The 1935-39 average was for horses and mules all ages, 15,750,000 head; for workstock 13,700,000 head; for colts 744,000 head; for tractors 1,244,000; for automobiles 3,896,000; and there were 973,000 motortrucks.

2/ In terms of 1935-39 prices.

3/ Includes Government payments.

4/ Preliminary.

The January 1, 1955 supply of hay, estimated at 72 million tons, is about 4 percent larger than a year earlier, and the number of roughage-consuming animals is up less than 1 percent. Numbers of hay-consuming livestock have trended upward for several years, but they are still below the 3 previous peaks reached in 1919, 1934, and 1944. Stocks of hay were larger than last year in most of the North Atlantic and North Central States. On the other hand, stocks were the shortest on record in the South Atlantic and South Central regions. Hay stocks were low in about half of the Western States and adequate or surplus in the other half. The disappearance of hay up to January 1 was relatively small mainly because of the mild weather. The increased use of grass silage was also a factor in reducing hay requirements.

Prices paid by farmers in February for feed were about the same as a year earlier but prices received by farmers for feed grains and hay were down 3 percent (table 3). For the next few months prices of feed are expected to average near or a little below those of a year earlier. Lower support prices for some feed grains and the prospects for 1955 feed grain crops will influence prices in early summer. The index of prices of all livestock and livestock products on February 15, 1955, was down about 12 percent from a year earlier. Prices of all livestock were down except beef cattle, lambs and broilers. The percentage drop was greatest for hogs, turkeys, eggs, and farm chickens.

In February 1955 returns per $100 of feed were below those of a year earlier for eggs, turkeys, butterfat, and hogs; not much different for milk, sheep and beef raising; and above those of a year earlier for broilers (table 4). All livestock enterprises, except eggs and broilers, were much below average in returns per $1.00 of feed. However, returns were better in February 1955 than they were in September 1954 for all enterprises except hogs. Returns from cattle feeding in 1954-55 may not be as large as they were in 1953-54, if the selling prices of fat cattle in the next several months average about the same as a year ago. However, in February 1955, prices of fat cattle were considerably higher than in 1954, even though the number of cattle on feed January 1, 1955, was 8 percent higher than a year earlier.

SEEDS

Retail prices of seeds have increased sharply since last spring. The index of prices paid by farmers for seeds was 12 percent higher in mid-February than it was a year earlier.

Prices of many grass and legume seeds are a third to a half higher than a year ago, and nearly all are higher than last fall. Largest increases in the mid-February retail prices were reported for seeds in this order: red clover (up 74 percent), alsike clover, orchardgrass, sericea lespedeza, timothy, Kobe lespedeza, improved varieties of alfalfa, Sudangrass, Grimm alfalfa, white clover, seed potatoes, common alfalfa, and

Table 3.- Average prices of feed in the United States, February 15, 1955, with comparisons

Item	Unit	Feb. 15, 1953	Feb. 15, 1954	Sept. 15, 1954	Feb. 15, 1955
		Dollars	Dollars	Dollars	Dollars
Prices received by farmers					
Corn	Bushel	1.43	1.43	1.53	1.40
Oats	do.	.77	.78	.71	.76
Barley	do.	1.28	1.15	1.05	1.08
Sorghum grain	Cwt.	2.65	2.32	2.16	2.26
Hay, baled	Ton	25.60	23.70	22.00	23.30
Feed grains and hay, Index number (1935-39=100)		223	217	219	211
Prices paid by farmers					
Mixed dairy feed (16 percent)	Cwt.	4.19	3.98	3.82	3.88
Laying mash	do.	5.02	4.86	4.90	4.77
Broiler mash	do.	5.38	5.26	5.33	5.18
Cottonseed meal	do.	5.03	4.02	4.45	4.45
Soybean meal	do.	4.93	5.01	5.52	4.72
Linseed meal	do.	5.36	4.91	4.61	4.76
Meat scrap	do.	5.76	5.43	6.18	5.35
Bran	do.	3.58	3.27	3.01	3.08
Middlings	do.	3.65	3.33	3.18	3.19
Alfalfa hay, baled	Ton	39.20	35.90	34.30	35.90
Prices paid by farmers for feed, Index number (1935-39=100)		228	214	215	212
Average value of concentrate ration fed to poultry and milk cows 1/					
Fed to poultry	Cwt.	3.96	3.86	3.89	3.80
Fed to milk cows in milk-selling areas	Cwt.	3.69	3.44	3.35	3.32
Fed to milk cows in cream-selling areas	Cwt.	3.22	3.06	2.98	2.93

1/ Value of the corn, oats, oilmeal, millfeed, commercial mixed feed, and so on making up 100 pounds of "grain" ration.

Agricultural Marketing Service.

Table 4.- Returns per $1.00 of feed cost of livestock enterprises, United States, Feb. 15, 1955, with comparisons 1/

Livestock enterprise or product	1937-51 average	Feb. 15, 1953	Feb. 15, 1954	Sept. 15, 1954	Feb. 15, 1955
	Dollars	Dollars	Dollars	Dollars	Dollars
Eggs	1.50	1.52	1.69	1.24	1.48
Broilers	1.64	1.59	1.32	1.35	1.63
Turkeys	1.90	1.61	1.61	1.35	1.48
Milk	1.93	1.85	1.81	1.85	1.78
Butterfat	1.53	1.33	1.35	1.21	1.22
Hogs	1.67	1.65	2.16	1.57	1.43
Sheep raising	1.60	1.27	1.32	1.40	1.33
Beef raising	1.76	1.61	1.42	1.44	1.47
Cattle feeding	2/ 1.25	1953-54 1.46		1954-55 3/	
	Index numbers (1937-51=100)				
Eggs	100	101	113	65	99
Broilers	100	97	80	82	99
Turkeys	100	85	85	71	78
Milk	100	96	94	85	92
Butterfat	100	87	88	71	80
Hogs	100	100	129	95	86
Sheep raising	100	79	82	82	83
Beef raising	100	91	81	79	84
Cattle feeding	100	1953-54 117		1954-55 3/	

1/ Quantities of feed used in calculating the cost of feed follow: Per dozen eggs - 7 lbs. poultry ration; per lb. of broiler - 4½ lbs. chick starter, 1935-39, 3½ lbs. chick starter, 1951-53, 3 lbs. broiler mash, 1954-55; per lb. of turkey - 5½ lbs. poultry ration before 1950; 5¼ lbs. 1950-53, 5 lbs. 1954-55; per 100 lbs. hogs - 7½ bu. corn plus 20 lbs. soybean meal, per 100 lbs. milk - 30 lbs. concentrate ration fed to milk cows in milk-selling areas plus the value of 110 lbs. hay; per lb. of butterfat - 7½ lbs. of concentrate ration fed to milk cows in cream-selling areas plus the value of 27½ lbs. hay in Minnesota and Iowa; per 100 lbs. beef cattle - 3 bu. corn plus 600 lbs. hay; per 100 lbs. sheep and lambs - 2 bu. corn plus 1,500 lbs. hay. Assumed 20 lbs. wool produced for each 100 lbs. sheep and lamb produced. The quantity of hay for milk cows, beef cattle and sheep, includes an allowance for silage and pasture. Feed nutrients from pasture assumed to cost ¼ as much as nutrients from hay. Cattle feeding returns are based on table 1, Livestock and Meat Situation, A.M.S., August 25, 1954, which is based on Corn Belt experience. 2/ 1920-52 average. 3/ Season not completed.

sweetclover. Declines from last year were reported for only 5 of 33 seeds - Kentucky bluegrass (down 35 percent), common ryegrass, seed oats, seed barley, and Korean lespedeza. The declines were less than 10 percent for each of these seeds, except Kentucky bluegrass, prices of which set a record last year. However, prices of 10 were less than 10 percent higher than a year earlier.

The supply (1954 production plus carryover) of 18 seeds for sowing in the 1954-55 season and for which production estimates were made was 699 million pounds, 7 percent less than in the preceding year and 2 percent below the 1943-52 average. Imports of these seeds July 1, 1954-January 31, 1955, totaled 27 million pounds, a fourth less than for the same period a year earlier and a fifth less than the average for the previous 5 years. But July 1-November 30, 1954, exports of grass and legume seeds, totaling 23 million pounds, were more than 5 times as large as a year ago and nearly 5 times the 5-year average for the same period, thus reflecting the short seed crops in Europe last year. The net supply of these seeds (production plus carryover plus imports minus exports) available for sowing in this country is 10 percent less than last year and 5 percent below average.

Seeds in shortest domestic supply compared with last year, taking into consideration imports and exports, are orchardgrass, Sudangrass, and red and white clover. Supplies of Kentucky bluegrass, red fescue, and Chewings fescue are much larger than last year. Compared with the 10-year average, current supplies are shortest for redtop, lespedeza, particularly sericea, crested wheatgrass, timothy, white clover, and red clover. They are largest for the fescues, Ladino clover, bentgrass, and alfalfa.

High prices of most seeds, together with smaller supplies than a year earlier, are expected to decrease sales this year notwithstanding the fact that there is a greater potential demand for seeds this year than last. Thousands of acres of legumes and grasses will have to be sown this spring or next fall because of the severe drought in the summer and fall of 1954. Furthermore, many acres which normally would be planted to such crops as wheat and corn, now in surplus supply, are expected to be sown to hay and pasture crops for livestock. Because of the below-average supplies of legume and grass seeds and the strong potential demand, farmers should not delay the purchase of seeds needed for spring planting.

FERTILIZER

Prices of plant nutrients in fertilizer, on the average, are slightly lower than they were a year ago. Reductions in price apply especially to high analysis fertilizers. Those containing smaller percentages of plant nutrients are largely unchanged. Very few increases in quotations have been noted on recent price lists.

From the viewpoint of farm costs, the fact that the increase in the price of fertilizer has for a number of years been less than the increase in farm costs and prices generally is important. Although prices paid and received by farmers in general have more than doubled since 1935-39, the price of fertilizer has increased about 52 percent. Thus compared with prewar fertilizer is relatively cheap.

The cost of transportation is an important factor in the price of fertilizer. By increasing the plant food content per ton of fertilizer, substantial savings in transportation costs per pound of plant nutrients have been made possible. This is one reason why the price per unit of plant nutrients has not gone up as much as have prices of many other things.

BUILDING MATERIALS AND FARM SUPPLIES

Prices of building and fencing materials used by farmers were slightly higher in December than a year earlier and about a fifth above the 1947-49 average. Since 1935-39 they have increased about 143 percent, compared with an increase of about 131 percent in prices paid by farmers for all commodities and services used in farm production, including interest, taxes, and wage rates.

Among the major items of farm building materials that were higher in December than a year earlier are cement (up 3.2 percent) and composition roofing (up 3.5 percent). Prices of some items of building and fencing materials were slightly lower. The total cost of materials used in building a typical poultry house was about the same as in 1953 (fig. 3).

Prices of miscellaneous farm supplies are about 2 percent lower on the average than a year ago, but they are about 17 percent higher than in 1947-49. The increase in prices of these items since 1935-39 has been about 97 percent, or slightly less than the average increase in prices of all production items.

PESTICIDES

Prices of most pesticides have remained unchanged since last September. Of 22 important pesticidal materials, manufacturers' prices of only 3 have changed in the last 5 months. Prices of toxaphene are slightly higher, and those for parathion and 2,4-D are slightly lower.

Current stocks are about 10 percent smaller than a year earlier, largely because excessive stocks of some pesticides have been reduced. Stocks of individual pesticides vary considerably. Stocks of aldrin are only about half as large as a year earlier. Lead arsenate and copper sulfate are about 70 percent and calcium arsenate about 80 percent of a

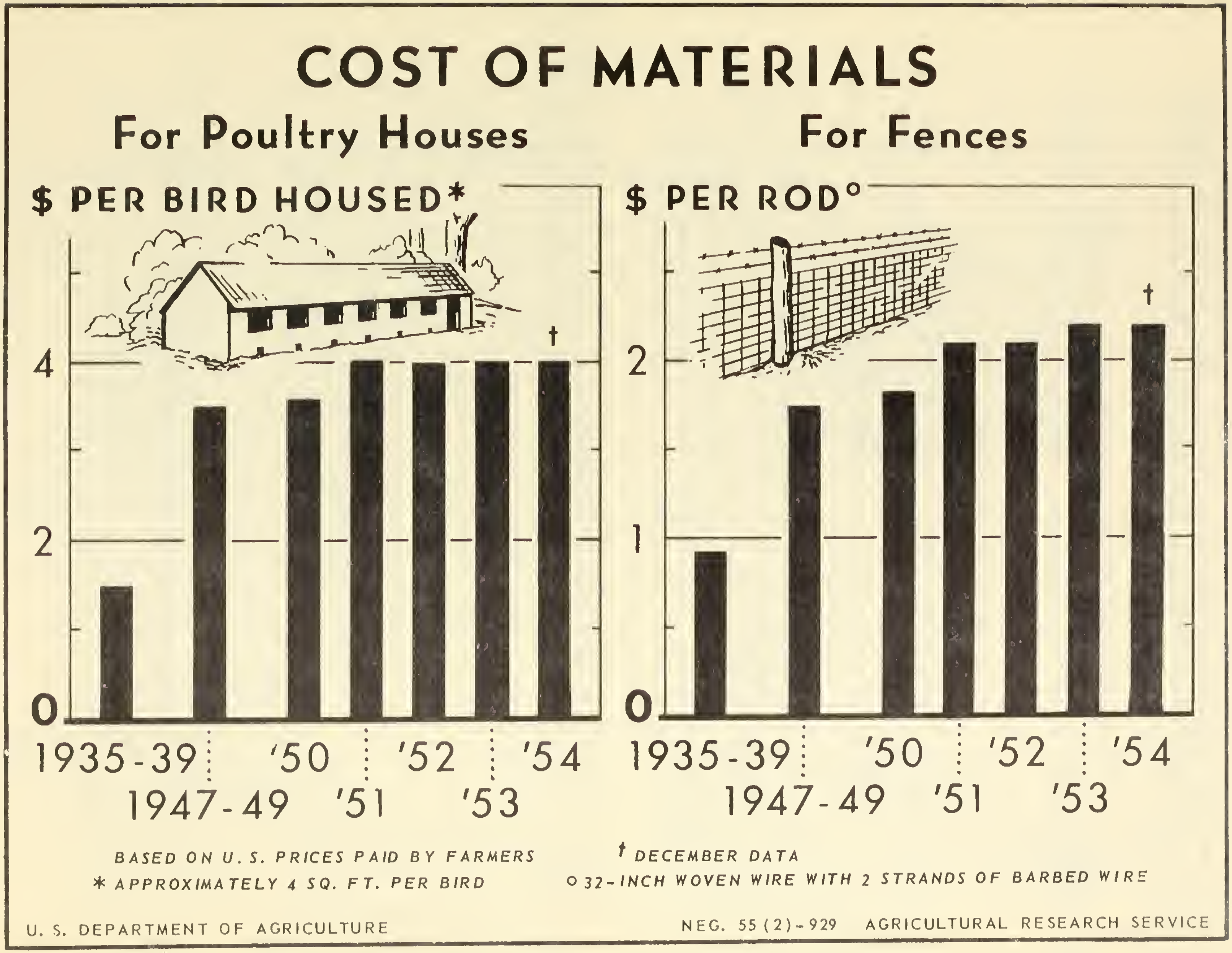
COST OF MATERIALS
For Poultry Houses
For Fences
$ PER BIRD HOUSED*
$ PER ROD°
0
2
4
0
1
2
†
†
1935-39
1947-49
'50
'51
'52
'53
'54
1935-39
1947-49
'50
'51
'52
'53
'54
BASED ON U. S. PRICES PAID BY FARMERS
* APPROXIMATELY 4 SQ. FT. PER BIRD
† DECEMBER DATA
° 32-INCH WOVEN WIRE WITH 2 STRANDS OF BARBED WIRE
U. S. DEPARTMENT OF AGRICULTURE
NEG. 55 (2)-929 AGRICULTURAL RESEARCH SERVICE

Figure 3

year ago. On the other hand, stocks of benzene hexachloride, chlordane, and DDT are each about 20 percent larger than a year earlier, and stocks of some newer materials such as captan and malathion are larger as they have been built up considerably to meet a growing demand.

Capacity of the chemical industry appears to be adequate to supply any foreseeable demand for pesticides in the 1955 season, and no significant changes in prices of pesticides are expected.

LAND COSTS AND RENTS

Prices of farmland strengthened in the central Corn Belt in the last half of 1954 but in most other States they drifted moderately lower. Nationally, land values last November averaged 2 percent above a year earlier (fig. 4) when they were 148 percent above 1935-39 (fig. 5). But last November they were 4 percent below the all-time peak reached in July 1952. Trends in values in the various regions since that peak level was reached have varied considerably. New all-time peaks occurred in 6 States last November, and in 16 other States values were within 5 percent of their previous highs. Values averaged from 5 to 10 percent lower in most of the South Central States, where drought reduced farm income and the demand for farmland. Land values in most western range States have declined about 15 percent in response to drought and to lower cattle prices.

Sales activity continued at the relatively low level of recent years, except in the Midwest where a slight increase occurred in the last half of 1954. Although demand for farmland was somewhat stronger than a year earlier in this area, the number of farms available for sale continued at a low level, as it was limited mainly to estate settlements and retiring farmers. Lower interest rates and an increase in the amount of credit available to finance farm purchases also contributed to the general strength noted in the land market in the Corn Belt. Several major insurance companies active in this area have reduced their interest rates by one-half of 1 percent. They have also raised their appraisals or upper loan limits on the better grades of farms. This general easing of credit has also occurred in selected areas elsewhere, but it has not become sufficiently widespread to affect significantly the general level of land values.

Farmers paid about $3 billion in cash and in crop and livestock share rents for the land they rented in 1954. This was only 2 percent less than in 1953 but it was 12 percent less than for the record year 1952. Crop-share rents accounted for about three-fourths of all rents paid and, because the rental share remains relatively constant, changes in the value of such rents result mainly from changes in crop prices and yields.

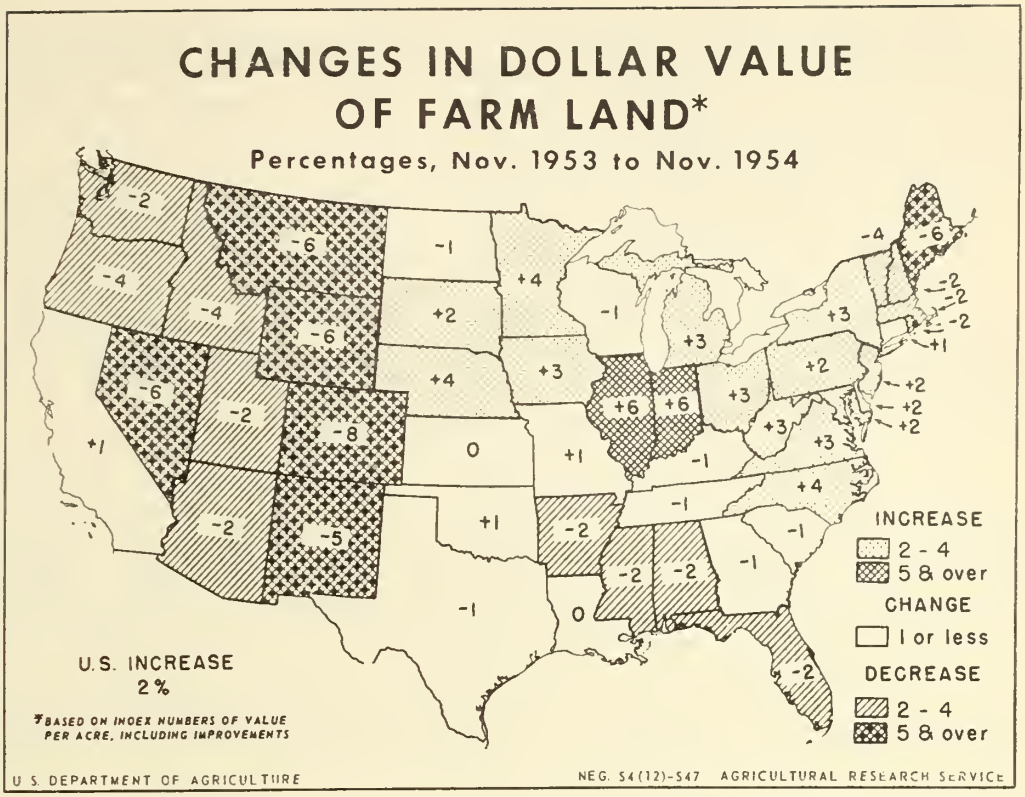

Figure 4

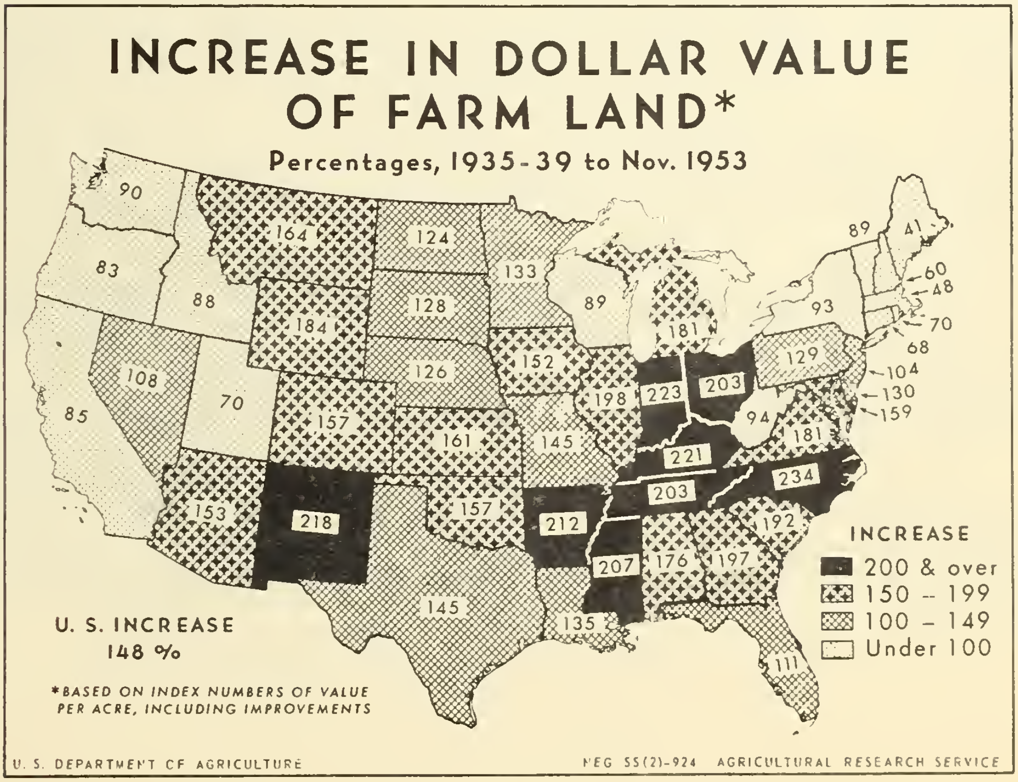

Figure 5

Landlords' expenses on rented land amounted to about $1.4 billion in 1954, two-fifths of which were for real estate taxes and building depreciation. Thus, the net income from all rented land was about $1.7 billion, or about 5 percent of the market value of leased land. This rate of return is the lowest since prewar. It is roughly the same as the prevailing rate of interest on new farm mortgages.

INTEREST, TAXES AND INSURANCE

Total farm-mortgage debt on January 1, 1955, is estimated at about $8.2 billion, approximately 7 percent above a year earlier. It is expected that interest payable on farm-mortgage debt in 1955 will be about $405 million as compared with $380 million in 1954.

Some reduction in mortgage interest rates took place in 1954, but little further change is expected in 1955. The average rate paid on all outstanding farm mortgages in 1955 will be about 4.7 percent. There is some variation in interest rates charged by different lenders. Most new mortgages in 1955 are expected to carry rates of 4 to 5.5 percent. These rates depend on the lender, the geographical area, the term of the loan, and the amount of loan as compared with the value of the farm offered as security. A farmer can sometimes make a considerable saving in mortgage interest by shopping around among the lenders who operate in his area.

The cost of the short-term credit that farmers use for production purposes may rise slightly but the total cost in 1955 is not expected to differ greatly from that of 1954. This cost will be determined largely by the amount of money farmers borrow. Interest rates of some lenders may rise slightly because of firmer money market conditions, but on the whole, the increase will probably be slight. In 1953 and early 1954 the amount of short-term credit used by farmers was decreasing, but since mid-1954 farmers have stepped up their rate of borrowing. The current rate of borrowing, which is somewhat above that of a year ago, is expected to continue in 1955.

Preliminary reports indicate that State and local property taxes paid by farmers in 1955 (levied mainly in 1954) will be about 4 percent greater than they were in 1954. Taxes levied on farm real estate are expected to be about 5 percent greater, whereas taxes levied on personal property are expected to be about 3 percent less than they were in 1954.

The continued rise in farm property tax levies reflects the rise in expenditures of State and local governments for goods and services. Purchases by State and local governments in the second and third quarters of 1954, according to Department of Commerce reports, continued their upward trend.

In 1955, farmers probably will pay about 23 percent less in Federal income taxes than they did in 1954. These payments represent liabilities incurred principally on income received in the preceding calendar year.

This decline results from 3 developments in 1954. One is the drop of about 9 percent in farmers' incomes, including nonfarm income, as computed for tax purposes. A decline of this magnitude would cause a drop in tax liabilities of about 12 percent. Also, starting on January 1, 1954, a sizable reduction was made in tax rates. The first bracket rate was lowered by about 10 percent - from 22.2 percent to 20.0 percent. Similar reductions were made in other brackets in the lower income range.

The third development that will contribute to a reduction in farmers' Federal income tax payments in 1955 on 1954 income arose from changes enacted in the Revenue Code of 1954. The new tax law introduced several provisions that will save money for many farmers in their taxes on 1954 incomes. Among these are the privilege of deducting as current expenses certain outlays for soil or water conservation, and the liberalized depreciation schedules applicable to new buildings and machinery.

Expenditures for insurance by farmers probably will be generally higher in 1955 than in 1954. Although most farm property values and replacement costs have remained relatively stable in the last 2 or 3 years, some farmers will increase their property insurance in 1955, more nearly to cover current replacement costs. The amounts of insurance carried have often failed to keep up with rises in property values, so that underinsurance is prevalent. As policies (mainly for 5-year terms) are renewed for increased amounts, the higher averages will require larger premium payments.

Because of the increased coverage, the total cost of Social Security taxes to farmers will increase from about $15 million in 1954 to nearly $200 million in 1955 (chiefly payable in 1956 before April 15). The tax rate on self-employment income from farming is 3 percent on net income up to $4,200 a year, and farmers also pay 2 percent on the wages of their hired workers provided they are paid at least $100 in a calendar year.

By the latter half of 1956 many farm operators who have then attained age 65 will be eligible for retirement benefits. Dependents of most farm operators will then be eligible for survivor benefits in case of untimely death.

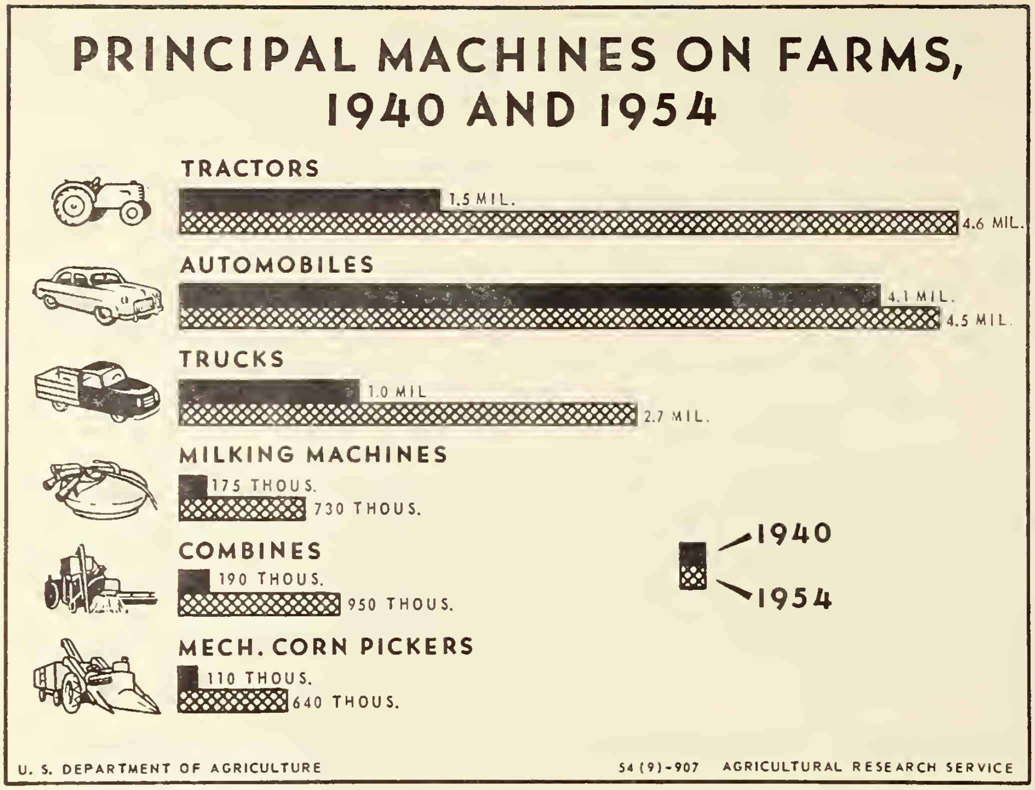

Figure 6

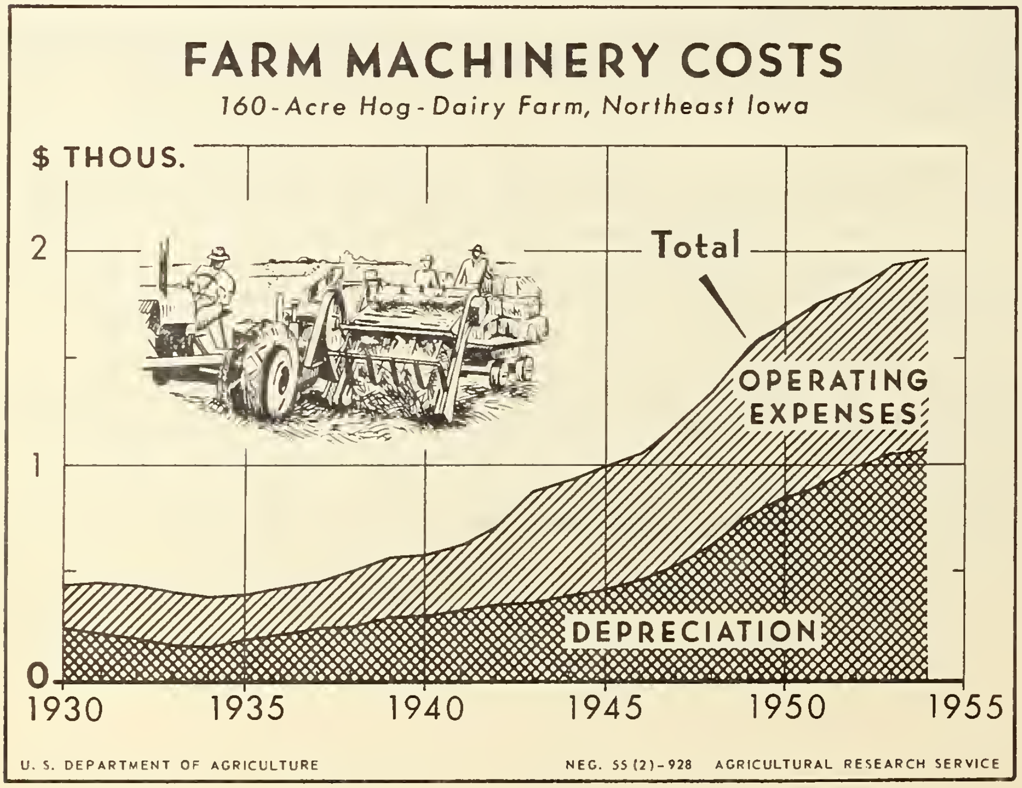

Figure 7

FARMERS' ADJUSTMENTS TO COST CHANGES

In the last 15 years, farmers have made significant changes in their use of production goods and services. It pays to change the combination of labor, machinery, fertilizer and other items when prices of these goods and services change in relation to one another. Costs can be reduced by using less of the items that become relatively more expensive and more of the items that become relatively less expensive. In addition, changes in the financial position of farmers and in technology also make it profitable for farmers to change the combination of goods and services used. Considerable adjustment to all of these changes has been made in the last 15 years.

Farmers are Hiring Less Labor

The large increase in farm wage rates and the large decline in the farm labor force have greatly changed farming since 1935-39. However, for the country as a whole, the proportion of the farm labor force that is hired has not changed significantly (table 5). Many farm jobs which formerly were done by hand are now done with machines by a smaller labor force.

Farmers are Using More Machinery

Changes in the relative costs of labor and machinery have also given impetus to the increase in farm mechanization (fig. 6). Latest estimates indicate that on January 1, 1954 there were 4.6 million tractors of all types on farms, along with 950,000 grain combines, 640,000 mechanical field-type cornpickers, 2,650,000 motortrucks, and 4,450,000 automobiles. About 730,000 farmers had milking machines. Since January 1, 1940, numbers of tractors have increased about 200 percent, grain combines about 400 percent, cornpickers about 480 percent, motortrucks about 150 percent, and farms with milking machines about 320 percent. Numbers of automobiles on farms have shown little change since 1940.

Along with the increases in machine numbers since 1940, other significant developments have arisen. Farms have decreased in number but they have increased in size. With the larger farms and the greatly increased wage rates, more farmers have found it profitable to use larger tractors and machines. In recent years, with sales of wheel tractors declining, shipments of the larger tractors have been relatively well maintained. Also, more farmers in some areas have found it profitable to use diesel and L.P.-gas tractors because of savings in fuel costs. Diesel and L.P.-gas tractors, although their numbers have increased in recent years, still account for only a small percentage of the wheel tractors. Many new models of tractors are being offered to farmers in 1955. They feature increased power, continuous running power take-off, fast hitching, greater variety and range of speeds, power steering, and greater riding comfort.

Table 5.- Farm employment: Annual averages of total family and hired employment, United States, 1935-54

Year	Total employment	Family workers	Hired workers	
			Number	Percentage of total
	Thousands	Thousands	Thousands	Percent
1935	12,733	9,855	2,878	22.6
1936	12,331	9,350	2,981	24.2
1937	11,978	9,054	2,924	24.4
1938	11,622	8,815	2,807	24.2
1939	11,338	8,611	2,727	24.1
1940	10,979	8,300	2,679	24.4
1941	10,669	8,017	2,652	24.9
1942	10,504	7,949	2,555	24.3
1943	10,446	8,010	2,436	23.3
1944	10,219	7,988	2,231	21.8
1945	10,000	7,881	2,119	21.2
1946	10,295	8,106	2,189	21.3
1947	10,382	8,115	2,267	21.8
1948	10,363	8,026	2,337	22.6
1949	9,964	7,712	2,252	22.6
1950	9,342	7,252	2,090	22.4
1951	8,985	6,997	1,988	22.1
1952	8,669	6,748	1,921	22.2
1953	8,580	6,645	1,935	22.6
1954	8,451	6,521	1,930	22.8

Data published currently in Farm Labor report (AMS).

Developments in other machines have also been directed toward savings in labor and in other costs. An important number of self-propelled combines are now on farms. Automatic tie balers now account for the great bulk of the baling of hay and straw. In 1940 there were practically no self-propelled combines or automatic tie balers. Many other machines now require less labor to perform a specified amount of work than did the prewar machines. With sufficient use, modern machines effect substantial savings in cost.

Numbers of tractors and other major machines on farms can be expected to continue to increase although at a slower rate than in the last 15 years. In most sections of the country, agriculture has now become highly mechanized and most purchases of new machines and equipment from now on will be for replacement.

Farm machinery depreciation and operating expenses have increased considerably since prewar. On 160-acre hog-dairy farms in northeastern Iowa, for example, the total of these two items has increased from about $500 in the 1930's to nearly $2,000 in 1954 (fig. 7).

Cotton Mechanization

Production of many crops has become almost completely mechanized but hand methods are still used extensively in production of cotton. As yet, machines and techniques have not been developed to the point at which complete mechanization of cotton production in a large part of the Cotton Belt would be profitable. This is partly because of low farm wage rates and many small farms in the South.

Problems of cotton mechanization are being studied by the United States Department of Agriculture in cooperation with several State colleges. A recent report on the situation in North Carolina contains these significant findings: 1/

1. Under present cost-price relationships, only a relatively small number of farms have sufficient acreages of cotton to justify the purchase and use of a mechanical picker.

2. Use of the picker is restricted to fairly level fields.

3. Mechanical strippers can be used economically on smaller acreages than mechanical pickers, provided gins capable of handling a high percentage of trash are available.

4. Use of strippers is restricted to areas that produce cotton plants less than 40 inches tall.

5. Field and grade losses and additional ginning charges are substantial when mechanical strippers and pickers are used.

1/ Cotton Mechanization in North Carolina. N. C. Agr. Expt. Sta. Tech. Bull. 104 in cooperation with the Agricultural Research Service, U.S.D.A.

6. Substitution of tractors for animal power is taking place rapidly on the larger cotton farms.

7. Rotary weeders can be used to good advantage on some farms with tractors, although hand hoeing usually is not completely eliminated by their use (table 6).

Table 6.- Labor used and related costs of producing cotton with different combinations of equipment, Southern Piedmont Area, North Carolina, 1951 1/

Power and equipment used	Per acre	
	Man hours	Total specified costs 2/
	Number	Dollars
Animal power only	138.2	113
Animal and tractor power	135.5	111
Tractor power only	117.5	101
Tractor power and rotary weeders	94.4	92

1/ Based on 1947-49 practices where cotton was harvested by hand.
2/ Labor, fertilizer, and seed.

In the High Plains area of Texas where about half of the cotton crop is harvested by mechanical strippers, the situation is quite different. 2/ Here farms are larger, the land is less rolling, the climate is less humid, and killing frosts usually occur sooner. Thus the cotton is shorter, it ripens within a shorter period, and the problems associated with weed control and defoliation are less troublesome than they are in North Carolina. Usually it is not practicable to harvest cotton mechanically while the leaves are still on the plants, and so long as a large labor force is needed for chopping and hoeing, it is less advantageous to mechanize harvest operations.

More cotton is grown in the High Plains area of Texas than can be hand harvested by the local labor force. Also, there is always the possibility that the number of migratory workers will not be sufficient to make up the deficit. Consequently, many farmers in this area have mechanical strippers. These are usually put into operation about 2 weeks after the first killing frost. The percentage of the crop that is harvested by these strippers depends to a large extent on how much of the cotton already has been harvested by hand before the strippers can be used. After frost kills the plants and it becomes possible to use strippers, the relative costs of machine and hand methods become a more

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2/ Economics of Mechanical Cotton Harvesting in the High Plains Cotton area of Texas. Texas Agr. Expt. Sta. Bull. 735 in cooperation with the Bureau of Agricultural Economics, U.S.D.A.

important factor. Almost all of the cotton that is harvested by hand in this area is snapped; practically none of it is picked. Therefore, the cotton gins in this area are capable of handling stripped cotton, which contains more trash than cotton that has been picked either by hand or by machine.

In California where all cotton is grown under irrigation and where yields are consequently relatively high, about two-thirds of the crop is picked by machines. 3/ Mechanical 1-row pickers cost up to $10,000 new, including the tractor, whereas mechanical strippers of the type used in Texas cost about $1,500 new, excluding the tractor. Despite the high initial cost of mechanical pickers, it is considerably cheaper to pick cotton by machine under California conditions than to pick it by hand. Many of the conditions that are retarding cotton mechanization in North Carolina, such as small farms, rolling terrain, persistent weeds, late frosts, low yields, and a large supply of farm labor are not present in California. At first (1945) machines were used to supplement hand picking. Today many growers have eliminated hand picking entirely.

Farmers are Buying Larger Equipment

Farmers also buy larger machinery and equipment. This is especially true in areas that were first to become mechanized.

Field operations were largely mechanized in the Corn Belt by the end of World War II, but progress is still going on. Some of the changes that took place in the cash-grain area of east central Illinois in recent years are indicated by surveys made in 1948 and 1953.

In the first place, there has been a decided shift to larger tractors. About 86 percent of the tractors bought by these farmers in 1950-52 were designed to handle as many as three 14-inch plows, whereas only 18 percent of the tractors made before 1940 and still on these farms in 1952 were designed for plows that large. Corresponding figures for the 1940-44 and 1945-49 models are 31 percent and 54 percent respectively.

Most of the commercial farms in this area now have one or more 3-plow tractors. Of the farms in the survey in 1952 with 70 or more total acres, nearly three-fourths had tractors that were rated by the manufacturer as large enough for three 14-inch plows.

The advantage in having more powerful tractors undoubtedly stimulated tractor sales in this area in recent years. About 29 percent of the tractors on these farms in 1952 were less than 3 years old. Moreover, 46 percent of the farms had at least one tractor that was less than 3 years old. Farms of 70 or more acres had an average of 2.0 tractors per farm in 1952 compared with 1.6 in 1947.

3/ Economics of Mechanical Cotton Harvesting. Calif. Agr. Expt. Sta. Bull. 743, in cooperation with the Agricultural Research Service, U.S.D.A.

In order to take full advantage of the greater power available in the newer and larger tractors, farmers in this area are buying larger plows, disks, planters, and cultivators. From 1947 to 1952 the proportion of the plowing done with 3- to 5-bottom plows increased from 39 to 68 percent. Planting with 4-row planters increased from 39 to 76 percent. Cultivating with 4-row cultivators increased from 6 to 62 percent.

This larger machinery represents a substantial increase in capital investment. It takes about $1,500 more to buy a 3-plow tractor with plow, disk, planter, and cultivator to match than to buy a 2-plow tractor with correspondingly smaller implements.

The larger machinery saves many hours of man labor. Particularly important is the fact that much of this labor is saved in the busier seasons of the year. On a 225-acre cash-grain farm, for example, the plowing, disking, harrowing, planting, and cultivating can be done in about 200 fewer hours with a 3-plow tractor and 4-row equipment than with a 2-plow tractor and 2-row equipment. This cuts the labor for these operations by more than a third.

Not only is the labor requirement substantially reduced with the larger machines but the chances of getting the work done at the proper time are greatly increased.

Farmers are Operating Larger Units

Many farmers cannot afford to own some of the larger items of farm machinery and equipment which save labor, unless they can buy or rent more land. This fact stimulates an increase in the size of farms.

Farms offered for sale have provided an opportunity each year for only a limited number of farmers to enlarge their farms and thereby to make more efficient use of farm machinery. No doubt, the small acreage of farmland available, particularly in the better land areas, has prevented as rapid an increase in size of farms as might have occurred otherwise.

Despite the limited supply of land for sale and, at times, keen competition from investor buyers, farmers have been active participants in the farm real estate market. They have bought two-thirds or more of all farms sold in most areas, and about 90 percent of such purchases were to be farmed by the buyer, either as a complete unit or in combination with other land. Nationally, 29 percent of a sample of farms sold in 1954 were for farm enlargement. The proportion was substantially higher in areas in which the greatest gains in farming efficiency could be realized by increasing the size of farm. Thus, in the wheat areas, from 40 to 50 percent of all farms and tracts sold were to be combined with other land owned by the buyer. In the eastern Corn Belt about a third of all purchases were for this purpose. A substantial proportion of all transfers in the range areas was bought to enlarge existing ranches. In contrast, purchases for farm enlargement have occurred less frequently in the dairy, general farming, and tobacco areas in which opportunities for increased mechanization of crop production have been fewer.

The strong competition for the limited supply of land available in those areas in which the greatest gains in production efficiency can be achieved by farm enlargement, as in the Corn Belt and wheat areas, is reflected in the relatively high prices paid for such tracts. In many cases, buyers tend to value such land in terms of the additional income possible from their entire farm, if the additional land can be acquired. They may be willing to pay more than the going market price for land similar to their own. As a result, unimproved tracts (without buildings) often sell for as much or more than similar land with improvements. When such purchases are soundly financed, a high price may be justified in terms of the overall gains in efficiency, but where additional debt is added to a farm that is already heavily mortgaged, the financial risks are obvious.

Farmers are Using More Fertilizer

The slower rise in the price of fertilizer relative to prices of other production items and prices received for farm products, along with advances in technology and greater knowledge as to both its use and crop response, has been largely responsible for the spectacular increase in the use of fertilizer since 1940 (fig. 8). To an individual farmer the increased yield from applying fertilizer has meant lower cost per unit of production. These increased yields, in turn, have been an important source of increased production in the war and postwar years.

Many farmers still use less fertilizer than would be profitable. The optimum rate of fertilizer application varies with the price of fertilizer and the price of a particular product, as demonstrated in the following example. These estimates are based on fertilizer experiments conducted on rather poor soil in the Corn Belt. Therefore, the most profitable rate of application indicated here would be too high for most soils in that area.

Some general estimates of rates for corn at which the return would be $1.50 for the last dollar spent, 4/ under different prices of the crop and costs of fertilizer are presented in table 7. These estimates are intended to be illustrative of the method of analysis but they probably indicate fairly well how the rate of fertilizer application on many Corn Belt soils that are somewhat below average in fertility varies with the price of fertilizer and the price of corn. The estimates are in terms of fertilizer carrying 30 percent plant nutrients; they assume that the plant nutrient ratio would be suited to the situation where used.

The prices of both crop and fertilizer significantly affect the most profitable rate of application under these conditions. For example, with fertilizer at $80 a ton, the quantity to apply would vary. With corn worth 80 cents, 435 pounds would be applied. With corn at $1.60,

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4/ Even though the rate that would likely be most profitable in a normal year is known, farmers must attempt to evaluate risk of unfavorable weather or other factors beyond his control.

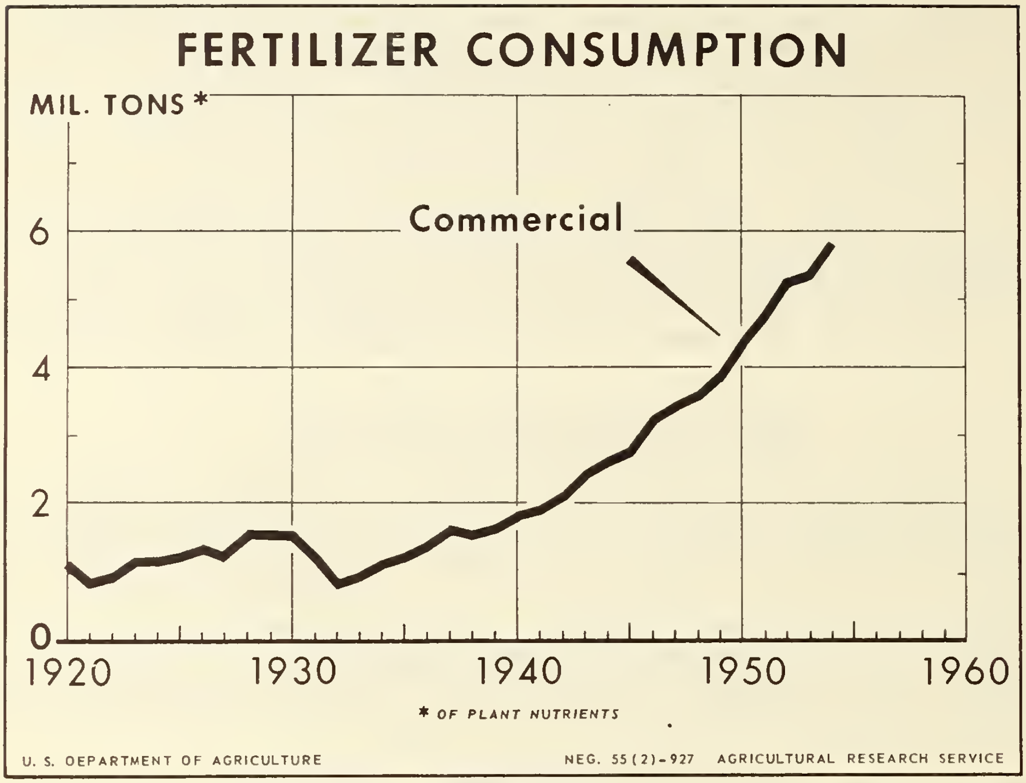

Figure 8

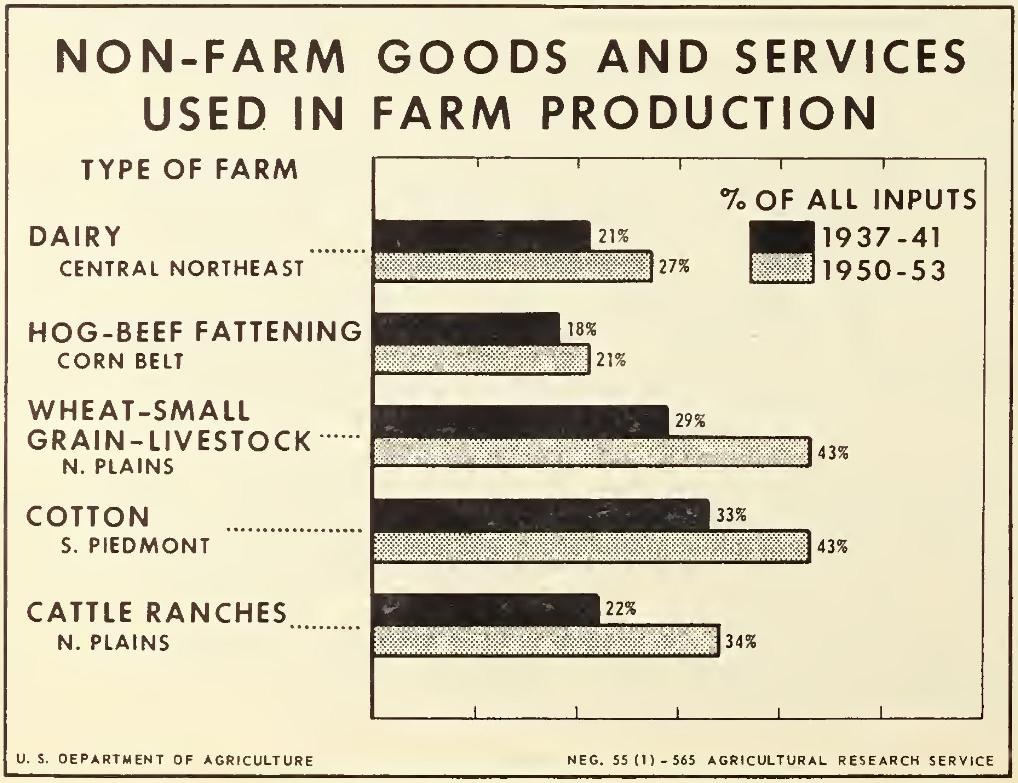

Figure 9

Table 7.- Approximate rates of fertilization at which the last dollar spent for fertilizer on corn would return $1.50, Corn Belt soils of below average fertility 1/

Cost per ton of fertilizer	Value of corn per bushel 2/				
	$ 0.80	$ 1.00	$1.20	$1.40	$1.60
Dollars	Pounds of fertilizer per acre				
90	310	525	670	780	875
80	435	620	760	865	975
70	550	725	850	950	1,040
60	675	830	955	1,050	1,140
50	805	950	1,075	1,165	1,250

1/ Estimates based on use of fertilizer containing the most economic nutrient balance of material containing 30 percent plant nutrients.
2/ Value in the field prior to harvesting.

975 pounds would be more appropriate.

Generally, a $0.20 difference in price of corn per bushel would influence recommended rates more than would a $10 difference in the cost per ton of the type of fertilizer specified. Also, the first increases in price above $0.80 affect the recommended rate more than the last one ($1.40 to $1.60) at any cost per ton of the type of fertilizer specified. This is because higher prices justify higher rates but as higher rates are used, increases in yield diminish with each unit added.

Farmers are Buying More Nonfarm Goods and Services

Farmers are using more nonfarm goods and services in their farming operations. This is a reflection of previously discussed changes in farming methods. Formerly, farmers raised horses and mules to provide most of the power they used. Many jobs that were formerly done by hand are now done mechanically. Machinery, motor supplies, fertilizer, spraying materials, and electricity are among the goods and services that farmers buy in larger quantities today. In 1937-41 such inputs represented from 18 to 33 percent of total farm costs for the five types of farms illustrated in figure 9; in 1950-53 they represented 21 to 43 percent of the total.

Farmers are Using More Credit

The use of credit in financing agriculture has been increased. It reflects the greater amount of investment and operating capital required for efficient farm operation under present conditions. The total value of physical farm assets is now $140.3 billion compared with $48.9 billion in 1940. In terms of 1947-49 prices the value of such assets has increased from $100.6 billion in 1940 to $122.7 billion in 1955.

Farm-mortgage debt is usually incurred by farmers for such long-run purposes as buying a farm, making major improvements, and sometimes for stocking and equipping a farm. On January 1, 1940, a total of $6.6 billion of farm-mortgage debt was outstanding. From 1940 through 1945 farmers reduced their mortgage debt substantially, and at the beginning of 1946 the debt stood at only $4.8 billion. Since then farm-mortgage debt has increased each year as farmers have increased their capital investment and as farms have sold at higher prices. At the beginning of 1955, total farm-mortgage debt was about $8.2 billion.

Farmers borrow against real estate mortgages for several reasons. A sample of 1,200 Federal land bank loans closed prior to June 15, 1954 showed that 60 percent of the money borrowed was to refinance existing debts, 13 percent was to buy farm real estate, and 27 percent was for all other purposes, including purchase of livestock and machinery and the making of farm improvements. In the fourth quarter of 1954, thirteen life insurance companies, which committed $115 million in loans during the quarter, reported that 35 percent of the amount was for purchase of real estate, 49 percent was to refinance existing debts, and 16 percent was for all other purposes.

Farmers are also increasing their short-term, non-real-estate borrowings. During World War II years, the short-term debt owed by farmers excluding price-support loans, remained relatively stable, decreasing slightly from $3.0 billion on January 1, 1940, to $2.9 billion on January 1, 1946. By the beginning of 1955, however, this debt totaled about $7.2 billion. An even higher debt of $7.6 billion had been reached on January 1, 1953, following a period of heavy investment in machinery, livestock, and farm improvements. The postwar expansion in credit has occurred mainly in the form of an increase in the average debt per borrower, but the proportion of all farmers who use production credit probably has increased also.

Interest rates on short-term credit declined between 1940 and 1946, but they have since increased. Thus, the rise in the cost of credit in the postwar years has been proportionately greater than the rise in the amount of credit used. The cost of production credit used in 1954 has been estimated at about $500 million.

Because of the rapid turnover of short-term credit, the amount currently borrowed and repaid annually may be as much as $15 billion. In addition to its effect on interest costs, this large amount of credit also imposes three problems of risk: (1) A heavy dependency on credit--if credit were sharply curtailed by lenders and creditors it might seriously restrict production and incomes of individual farmers, (2) a large recurring liability for farmers--if credit is not repaid when due it could expand rapidly to dangerous levels and (3) credit permits a larger volume of business, but it could conceivably result in greater losses if operations are highly unprofitable. A single loss may reduce a farmer's equity or otherwise impair his borrowing capacity and his ability to operate efficiently. However, difficulties of this nature have so far been rare, except in areas suffering from drought. Under normal circumstances, most farmers may be expected satisfactorily to adjust their use of credit to changes in income.

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